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**OIR Contribution to NIE-43: THE STRATEGIC IMPORTANCE OF THE  
FAR EAST TO THE USSR AND COMMUNIST CHINA**

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State Dept. review completed

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**OFFICE OF INTELLIGENCE RESEARCH**

**DEPARTMENT OF STATE**

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II. WHAT ECONOMIC FACTORS IN THE FAR EAST HAVE A BEARING ON THE STRATEGIC ASSESSMENT OF THE AREA BY THE USSR AND COMMUNIST CHINA?

A. What is the significance to the overall Soviet economy of specific raw materials and strategic resources obtainable from China?

Japan? Southeast Asia?

The economy of the USSR is dependent upon Far Eastern raw material supplies to a very limited extent. Imports of certain industrial raw materials, notably tin, tungsten, molybdenum, and natural rubber, have been necessary to maintain and expand Soviet industrial output. Since the major portion of these commodities is consumed in essential industries, and with the possibility that existing stockpiles are small, Soviet import requirements of these Far Eastern raw materials may be relatively inflexible. The USSR obtains tin, tungsten, and molybdenum from China, tin and rubber from Southeast Asia, and no strategic raw materials from Japan.

Tin:

It is believed that the USSR imports from one-third to one-half of its "peace-time" tin requirements, exclusive of stockpiling, and in addition may at present be building strategic stockpiles. Under wartime conditions, Soviet tin requirements would probably increase, owing to its use in military production. China, one of the smaller Far Eastern producers, is currently supplying the major portion of Soviet imports, and potentially could meet the entire Soviet import needs.

Tungsten and Molybdenum:

Domestic production of tungsten and molybdenum in the USSR is far below its requirements. China, as the world's largest single source of tungsten and molybdenum, is able to meet these import requirements for the Soviet production

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of alloy steels. Korea has been another source of tungsten for the USSR.

Rubber:

The USSR has developed a synthetic rubber industry adequate to meet its requirements, but is dependent upon imports for the natural rubber necessary for admixture with the synthetic. Continued access to the major sources of supply, primarily Malaya and Indonesia, is therefore important for the USSR unless and until rubber technology progresses to the point where synthetic rubber can fully replace the natural product. It is believed that the USSR has a stockpile of natural rubber adequate for one to two years, and continued heavy purchases indicate a policy of enlarging existing stocks.

B. In the development of its Far Eastern economy, of what importance to the USSR is China, Japan, Southeast Asia?

The fact that the Soviet Far Eastern and the Chinese economies are complementary only to a limited extent restricts the contribution which China could make to the development of the Soviet Far East. Both areas, China and the Soviet Far East, are raw material producing, capital importing regions. Assuming no access to capital goods imports from countries other than the USSR, the two regions would inevitably compete for the very limited quantities of capital goods which the USSR would be able to supply. This competition, in turn, would involve compromises in the development plans for both areas and become a source of economic and political strain between China and the USSR.

This situation would be significantly altered if Japan were brought into the Soviet sphere. Utilising the raw materials of the Soviet Far East and China, Japan, with a steel capacity equalling 40 percent that of the USSR and with commensurate manufacturing facilities, could greatly assist in the development of the Soviet Far East. The raw material base of this region, and therefore the Japanese industrial potential, would be considerably expanded by the addition of Southeast Asia to the Soviet sphere.

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II. C. In the development of the Chinese economy of what importance is Japan? Southeast Asia?

1. With the complementarity of Japan's industrial economy to the agricultural economy of Communist China, a Communist Japan could greatly assist the development of the Chinese Communist economy. Japan would provide a vast market for Chinese exports; two-thirds of Japan's 1960 imports of \$1 billion were commodities produced in China and which could be supplied by China through appropriate shifts in output and reductions in domestic consumption. The increase in Chinese exports would provide ample foreign exchange to finance capital goods imports within the limits of Communist China's investment capabilities, while in Japan the supply of raw materials and growing export demands would sustain an expanding level of output. Communist China might also be able to further its industrialization through securing technical assistance and capital exports from Japan.

It may be noted, however, that the allocation of resources and the terms of trade between China and Japan would be influenced by the relations among, and economic policies of, the USSR, China, and Japan. Nevertheless, despite the possibility of Soviet exploitation, it is unlikely that this would destroy potential for economic expansion in China and Japan through mutual expansion of trade.

2. The establishment of Communist governments in Southeast Asia, however, would be unlikely to further significantly the development of the Chinese Communist economy. It is improbable that China could greatly increase her export markets in these areas. Although China could secure imports of petroleum and rubber from these areas -- China has no need for such other

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major export surpluses as rice, tin, and vegetable oils. The advantage to China, then, of the establishment of Communist governments in Southeast Asia would be limited to securing sources of rubber and petroleum imports, providing protection against possible Western export controls.

It may be noted that if there were a Communist government in Japan, the establishment of Communist governments in Southeast Asia would strengthen Japan's economic base and thereby possibly provide indirect benefits to the Chinese Communist economy.

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D. How important is it to both the USSR and Communist China to deny, now and in the future, the raw materials and strategic resources of the non-Communist Far East to the West?

The importance which the USSR and Communist China attach to denying the West the raw materials and strategic resources of the Far East must depend upon their assessment of the probability of a military conflict and of the role which Far Eastern supplies play in building and maintaining the military potential of the West. If, in their estimate, a general war is avoidable, the USSR and Communist China may attach little importance to denying the West access to Far Eastern resources. On the other hand, if war is deemed inevitable, the USSR and Communist China might well consider it desirable to prevent the flow of materials from the Far East to the West. Any possibility of overt action in this field would in part be determined by the political, economic and military capabilities of the USSR and Communist China in the Far East, and by their estimate of the probable consequences of such action.

The Far East is a major free world source of supply for natural rubber, tin, copra and coconut oil, quinine and quinidine. In addition, the area is a secondary source for hard fibers, shellac, chrome and petroleum. Loss of these supplies would have little immediate effect on the military capabilities of the West, largely because of stockpiles, possibilities of restricting unessential civilian consumption

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and availability of substitutes. In a war of three to five years duration, the loss would pose more difficult problems of economic adjustment. But these problems could be met without materially impairing the overall economic strength of the West.

(a) Natural Rubber

The West received 88 percent of its new rubber supplies from the Far East in 1950. The free world can now produce approximately 1.3 million tons of natural and synthetic rubber annually, or about 65 percent of its 1950 consumption. Even if all supplies were cut off from the Far East, this record 1950 level of consumption could be maintained for two years from current production and stocks. However, maintenance for a period of five years of a 2 million ton per annum level of consumption, which would be adequate to meet all essential civilian and military needs of the West under conditions of war, would require that existing synthetic rubber production capacity be expanded by 500 thousand tons yearly. Such expansion would entail the use of stainless steel, aluminum, and copper among other important strategic materials which are now in scarce supply. With such an increase in synthetic rubber output, the free world rubber position during the next five years would be as follows.

	(Long Tons)
Natural rubber afloat for West	225,000
Natural rubber stocks (commercial)	300,000
U.S. Government stocks	725,000
U.S. & Canadian synthetic rubber production (5 years)	7,800,000
Natural rubber production in West (5 years)	<u>1,060,000</u>
Total Supplies (5 years)	5) <u>10,110,000</u>
	2,022,000 - rubber supply available to West yearly.

The above data indicates that the proportion of natural rubber in the total rubber supply would exceed 20 percent, thereby insuring the West against any debasement in the final rubber products.

(b) Tin

The loss of tin from Malaya, Indonesia, and other South East Asia areas would cut off approximately 65 percent of estimated supplies of the West for 1952. The remaining 60 thousand long tons available from Bolivia, Nigeria and Belgian Congo would be sufficient to meet about 40 percent of estimated unrestricted world industrial requirements for 1952 if provision for stockpiling were eliminated. While there are no convenient substitutes for tin, conservation measures can be instituted by such means as reducing the coating of tin on tinplate, reducing the percentage of tin in solders and alloys, by restricting the end uses of tinplate and alloys and for some purpose substituting other materials; e.g. glass or paper containers. On such an emergency basis the West's requirements might be reduced to 90 thousand tons annually. The remaining free world deficit could be met from the US strategic stockpile for about a 4 year period. An additional cushion would be provided by RFC and other free world stocks. If the cut-off period were postponed to June 1953, scheduled deliveries to the US strategic stockpile would enable the US to meet the free world deficit for a period of 8 years in addition to any buildup in stocks by other countries and possible slight increases in production in remaining free world areas.



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(c) Hard Fiber.

The Far East now accounts for about 17 percent of the West's supply of hard fibers (sisal, abaca and henequen). This percentage will decline during the next several years as recently increased hard fiber acreage in the West comes into production.

Although current hard fiber production falls short of demand in the West, consumption could be curtailed substantially without denying important needs. With end-use restrictions to conserve supplies, present free world output would be sufficient to fulfill important needs since existing stocks provide an important measure of expansibility in short run supplies. US stocks of abaca and sisal have been increased by procurement for the stockpile. Half of the stockpile objective for abaca has already been achieved while the goal for sisal has already passed the three-quarter mark. Immediate procurement plans are expected to bring the stockpile of these commodities 10 percent closer to the goals by the end of December 1951. While data on government stocks of hard fibers in other friendly countries are not available, recent reports of large purchases by them tend to indicate that their hard fiber stock levels have also been improved. By the time stockpiles are exhausted increased production in the West will be more than adequate to meet all essential needs.

(d) Copra and Coconut Oil

The West normally receives about 60 percent of its supplies of copra and coconut oil from the West. The oil is used mainly in the

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manufacture of soap and to a small extent for food purposes in Western European countries.

Since the various fats are highly substitutable, loss of the Far East's copra and coconut oil supplies could, as during World War II, be partly offset out of present U.S. surplus production of oil-seeds (mainly soybeans). Production of detergents also could be increased but this would run into a benzine shortage. With restrictions on consumption, the loss of Far East copra and coconut oil supplies should not raise major supply problems for the countries of the West. The U.S. was able to get along on only 25 percent of its prewar coconut oil consumption in 1945.

(e) Other Materials

Shellac from Thailand accounts for approximately one-fifth of free world supplies. The Thailand shellac is of a lower quality than the Indian shellac. Its loss could probably be made up within a short period by restricting civilian consumption and encouraging the use of substitutes.

Approximately 85 percent of United States quinine supplies come from Indonesia and 100 percent of US quinidine supplies. This country's strategic stockpile of quinine is almost double the objective and sufficient to make up for the loss of Indonesian supplies for over 6 years in addition to supplies from Latin America. In the case of quinidine, however, the United States' current stockpile is far below objective and adequate to compensate for the loss of Indonesia for less than a year. Some additional supplies could be obtained by the conversion

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of a portion of the quinine stocks to quinidine as was done during World War II in the ratio of 3 parts of quinine sulphate to 1 part quinidine. Moreover, by June 30, 1952 sufficient quantities of quinidine are scheduled to be transferred to the United States stockpile to meet requirements for an additional 2-3 years. There are evidently no substitute sources and no substitute materials for quinidine and the alternative to use of this drug for certain heart diseases may be death.

The Philippines supplies approximately half the United States' requirements of refractory chrome. However, these supplies probably could be replaced in a relatively short time by higher cost imports from Cuba. The United States stockpile of refractory chrome now amounts to about 2 years supplies from the Philippines.

Loss of petroleum from Indonesia and British Borneo would cost the West less than 2 percent of its current consumption.

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III. TO WHAT EXTENT IS THE SOVIET AND/OR CHINESE COMMUNIST STRATEGIC ASSESSMENT OF THE FAR EAST AFFECTED BY POLITICAL, IDEOLOGICAL OR PSYCHOLOGICAL CONSIDERATIONS?

The USSR, in accordance with Leninist theory, views its Far Eastern policy as but a part, albeit a highly important part, of the over-all world Communist struggle against capitalism. Moscow has adhered to this world-wide approach in the postwar era, identifying the Far East as an arena for the conduct of the anti-US struggle which, with the polarisation of forces around the US and the USSR, has become tantamount to the struggle with capitalism.

With the victory of the Chinese Communists, the strategic importance of the Far East to the USSR has been heightened considerably. This development has bolstered Soviet security, opened up opportunities for Communist expansion in Asia, and constituted a major victory for the world Communist camp of which Moscow is the acknowledged leader. It has at the same time, greatly increased Soviet Far Eastern responsibilities, the maintenance in power of the Chinese Communist regime having become a matter of such cardinal importance to the Kremlin as to necessarily color all Soviet Far Eastern planning. This situation obviously gives the Chinese Communists a certain amount of leverage in their dealings with the Kremlin.

In the framework of the above general considerations, Communist acquisition of any or all the countries concerned would not only mark a further step in advancing the Communist cause but would, from Moscow's point of view, strike a blow at capitalism by undermining the US power position. The acquisition of Japan and/or South Korea would be most significant. In

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any case, Communist acquisition would deny to the US economic and manpower resources and reduce US influence throughout the world. Insofar as the UN was involved in the defense of any of the countries, Communist conquest would undermine faith in collective security. In addition to these global advantages, Peiping might see Communist acquisition of any of the countries more in terms of the direct gains which they would mean for Chinese security and prestige throughout Asia and the rest of the world.

Communist penetration or aggression in any one of the countries listed below would also very probably have snowballing effects in the rest of the area, particularly in Southeast Asia. It has been estimated that the loss of Indochina to the Communists would soon result in the elimination of non-Communist governments in Burma, Thailand, and eventually Malaya, unless the US and its allies made a decision at some time in this process to make a determined major stand on the Asiatic continent. The loss of mainland Southeast Asia would present to Indonesia an almost irresistible pull towards accommodation with the Communists unless at that juncture Indonesia had aligned itself completely with the West and was convinced of the effectiveness of Western military protection. In addition, the inherent logic of geography must be considered. It is, for example, difficult to conceive of a Communist fait accompli in the Philippines while the rest of Southeast Asia and the Far East remains in status quo. It is equally difficult to conceive of Japan's being lost to the Communists before South Korea.

Although events elsewhere in the world might inhibit the West from itself precipitating a general war to resist Communist aggression in

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Southeast Asia, it would seem plausible in view of the repercussions to Western prestige and the Western strategic position, that such aggression would engender not only in Asia but also in the Middle East and Europe, that at some stage in this process of Communist expansion in the Far East a general war would have begun. Mutual defense pacts recently concluded between the US, the Philippines, and Japan would highlight this possibility.

Current Soviet strategy meanwhile calls for "armed struggle" in all the countries involved except for Japan and Taiwan in which the traditional methods of subversion thus far apply. In Korea "armed struggle" also involves Chinese Communist intervention which threatens to be applied to other countries concerned. This strategy permits the USSR to assume the appearance of non-intervention and of being the champion of nationalist aspirations. With a minimum of risks for the USSR, this policy keeps the Western nations occupied in long wars of attrition (the French in Indochina, the British in Malaya) which are a drain on their resources and morale. At the same time, it keeps the area in a turmoil and ripe for Communist operations with Communist activities in one country encouraging Communists in all the others. This policy, however, has its disadvantages for the USSR. A war of attrition also operates equally against the Asian Communists who as a result may be forced to put continued demands on the Chinese Communists and/or the USSR for increased support. The perpetual Communist threat has a coalescing effect upon the Western nations and has gradually resulted in an increase in US interest, for example, in Southeast Asia, a development which Moscow probably regards with some apprehension, however much it may anticipate it.

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1. South Korea. Possession of this area would give the USSR a strategic position in Northeast Asia that it has traditionally heavily emphasized, particularly in connection with the "Japanese problem." It simultaneously would remove the last anti-Communist foothold in the Eastern Asian mainland and give the USSR a base for threatening Japan, a base about which the Japanese have always been highly sensitive. Within Japan, depending on the circumstances at the time of Korea's fall, there might be an increase in sentiment favoring accommodation with the Communist bloc, but the predominant tendency would be to strengthen Japan's defenses. Acquisition of Korea would result in complete Communist control of another colonial area and obviously give weight to the "all roads lead to Communism" doctrine. UN assumption of responsibility for the South Korean regime and the continued presence of UN, particularly US, troops there greatly enhance Korea's strategic importance to both the USSR and Communist China. It represents a test of the principle of collective security as opposed to Communist power. Conquest of Korea would therefore represent a severe defeat for the US and UN and a notable victory for the USSR and its allies which could not fail to have serious repercussions.

Apart from the risk of a world war, Moscow and Peiping could not expect that the UN would accept Communist military conquest of Korea. Both would therefore be confronted with the possibility of a continuing war in the Far East of which Communist China would bear the brunt. The USSR would probably have to face resultant increasing demands upon it from Communist China, whose bargaining position vis-a-vis Moscow would be strengthened. At the same time UN loss of Korea would probably accelerate US efforts to build a

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Pacific security system and to increase internal US rearmament.

Communist acquisition by political penetration would imply that a cease-fire had been reached and probably that non-Korean troops had left Korea. The risks involved in acquisition by this means would be considerably reduced for Moscow and Peiping but they would still be great insofar as the UN would, under such circumstances, be responsible for South Korea.

Meanwhile the maintenance of current Soviet policy under which there is no cease-fire and fighting continues has certain advantages for Moscow. It enhances the war-scare Moscow is trying to exploit throughout the world. It helps arouse Japanese fear that the war might spread to Japan. It ties up strong US forces and armaments. On the other hand, however, it jeopardizes the North Korean regime, increases the danger of general war and more specifically for Peiping the possibility that Communist China will be subject to bombardment and blockade. It has strained the Chinese Communist economy and is probably a source of constant demands on Moscow by Peiping.

2. Japan. Communist acquisition of Japan, whether by conquest or political penetration, would be of tremendous significance for international Communism, particularly in view of the Communist victory in China. Not only would the USSR and Communist China have removed the chief potential source of real danger to Communist Far Eastern areas but would have acquired Japan's industrial and skilled manpower resources. The effect of such an acquisition upon the non-Communist world would be no less significant. It would deal a staggering blow to US prestige and influence and put into Communist hands an area which would permit the Communists to exert great pressure upon the rest of non-Communist Asia.

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It must be recognized, however, that even before the conquest of Japan was completed, the Communists would find themselves in a general war with the US. As in the case of South Korea, apart from the risks of war, the USSR might have to expect Communist acquisition of Japan to have a coalescing effect in the rest of the world and to stimulate the US and Western European rearmament program. Although the worsening of relations with the West which would undoubtedly follow such an acquisition would work to keep the Sino-Soviet alliance cemented, the disappearance of Japan as a threat might lessen the compulsions tying the USSR and Communist China and raise problems of accommodation between the two regarding the disposition of Japan. The Soviet Union might seek a dominant role in Japan as a lever to keep Communist China in line. Conversely, the Peiping regime might seek a dominant position in Japan to strengthen its own position vis-a-vis the USSR and to enhance the Chinese claim to lead Asia and the Asian Communist Parties. There might also be room for contention in the question of applying Soviet or Chinese experience to the development of a Japanese Communist government and society.

Meanwhile continued attempts at subversion would avoid the risk of more drastic action and presumably would serve to nurture the anxieties of the Japanese people, discourage Japan's rearmament and if possible make Japan more amenable to compromises to gain Sino-Soviet favor. In addition, the threat of Japan's revival as a strong force in the Pacific serves to solidify Sino-Soviet ties.

3. Taiwan. Acquisition of Taiwan is important to the USSR principally because of Communist China's great interest in the island and also insofar as it affects the US and its relations with the two Chinese governments.

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Conquest of Taiwan would complete the Communist conquest of China, increase Chinese Communist prestige and discourage anti-Communist activity at home by removing the rival to Peiping's authority. Abroad it would be used to strengthen Peiping's case for international recognition. It would result in a loss of US prestige, particularly if the 7th Fleet were still there, and constitute a pressure point against Japan and Southeast Asia. At the same time, whatever effect Taiwan's current status has on pushing Peiping closer to the USSR would presumably be lost by the acquisition of Taiwan.

4. Southeast Asia. Soviet interest in the countries of this area (the Philippines, Indochina, Thailand, Burma, Malaya, Indonesia) is indirect and based, as in the case of Taiwan, on the effect that Communist acquisition would have in general in bolstering world Communism, reducing US influence, and weakening non-Communist governments. In addition, for reasons of geography, Moscow must operate through Communist China and pay particular heed to its interests in the area. In each case Communist acquisition would heighten internal and external Communist pressure first on the particular country's neighbors, next on the rest of Asia and finally on Europe. The mode of Communist conquest would be of questionable significance, except in the case of India's reaction. While outside invasion might tend to increase the fears of still unconquered states, any form of conquest might well stimulate tendencies toward accommodation with Communism. In the case of Indochina, complete victory by Ho Chi-minh without direct outside intervention might have little effect at all on India.

Communist acquisition of any or all of the countries of Southeast Asia might conceivably give rise to a struggle for dominance between Moscow and

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Peiping over the newly-won countries. On the other hand, the two Communist countries might prove perfectly capable of a modus vivendi based either on a "common cause" concept or on spheres of influence arrangements.

In addition to the above considerations which would apply to all the countries named, there are additional considerations for the individual nations.

(a) The Philippines. Acquisition by any means would constitute a blow above all and most directly against the US which has maintained a close relationship with the Philippines. As in the case of Japan, acquisition by military means would involve the Communists in a war with the US, which is bound to the Philippines by a mutual security pact. Acquisition would increase the sense of isolation particularly in Japan, Taiwan, and Australia, and cause them to seek renewed assurances about US intentions and capabilities in the area.

(b) Indochina. The conquest of Indochina through outside intervention would have a sharp effect on France itself, on Franco-Soviet relations, and on the French Union. It might strengthen French willingness to accept the Germans in the anti-Communist camp and might have its repercussions on the French Government's attitude to the French Communist Party. Defeat in Indochina could strengthen France by ending the economic and military drain which the war in Indochina has signified. Accordingly, the USSR might deem it more advantageous to see the continuation of subversive activities in Indochina at a level which does not necessarily bring complete success. However, this might constitute an issue of contention between the USSR and Peiping since the latter might be more concerned with removing what it considers a threat to its borders.

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(c) Thailand. In addition to the effects on its neighbors, Communist conquest or penetration of Thailand would have a special significance because of that country's long record of independence and current Communist weakness. The stimulus to Asian Communists would be correspondingly strengthened. US prestige would suffer not only in general but insofar as Thailand had aligned itself with the West by way of receiving military aid and through its participation in the Korean war.

(d) Burma. Communist conquest would probably discourage neutralist sentiment in Asia and elsewhere and would constitute a strong pressure point on India, particularly on the part of the Chinese Communists. It might also bring about a reorientation of the Thai government toward its Communist neighbors and pro-Communist Thai groups. The fall of Burma, if accomplished through Chinese Communist intervention, would probably raise serious doubts in India regarding Chinese Communist intentions. If accomplished by indigenous forces, India would undoubtedly be concerned, but the present official Indian attitude toward Communist China and the USSR might not be altered.

(e) Malaya. Conquest of Malaya would have particularly deleterious effects upon the world-wide and Asian position of the UK. The loss of income from rubber and tin would have far-reaching political as well as economic effects within Britain. In addition to Malaya's directly contiguous neighbors, Indonesia would also be affected with a Communist nation athwart its coasts.

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(f) Indonesia. Acquisition of Indonesia would have a particularly strong effect on Australia and New Zealand which would be faced with their most imminent threat since World War II although they would not yield to heightened Communist pressure. A Communist takeover in Indonesia would lend strong moral support to insurgent movements throughout Southeast Asia.

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